

WINTERSET MUNICIPAL UTILITIES
WINTERSET, IOWA

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

Year Ended December 31, 2015

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WINTERSET MUNICIPAL UTILITIES

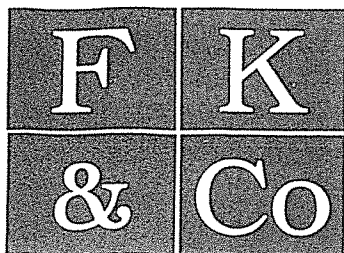
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before March 8, 2015)		
Gerrit Vrieze	Chairperson	March 8, 2015
Kendall Kerns	Trustee	March 8, 2017
Patty Weeks	Trustee	March 8, 2019
Stephen Scott Wesselmann	General Manager	Indefinite
Chuck Johnson	Electric Superintendent	Indefinite
Steve Benshoof	Water Superintendent	Indefinite
(After March 8, 2015)		
Kendall Kerns	Chairperson	March 8, 2017
Gerrit Vrieze*	Trustee	March 8, 2021
Patty Weeks	Trustee	March 8, 2019
Steve Montross **	Trustee	March 8, 2021
Stephen Scott Wesselmann	General Manager	Indefinite
Chuck Johnson	Electric Superintendent	Indefinite
Steve Benshoof	Water Superintendent	Indefinite

* - Resigned on July 21, 2015.

** - Appointed effective July 21, 2015.

Winterset Municipal Utilities



FALLER, KINCHELOE & Co, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Winterset Municipal Utilities:

Report on the Financial Statement

We have audited the accompanying financial statement of the business type activities and each major fund of the Winterset Municipal Utilities, Winterset, Iowa, (Utilities) as of and for the year ended December 31, 2015, and the related Notes to Financial Statement, which collectively comprise the Utilities financial statement listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on this financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the business type activities and each major fund of the Utilities as of December 31, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Utilities is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Winterset that is attributable to the transactions of the Utilities. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Utilities financial statement. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statement. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 9 and 19 through 20 has not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 1, 2016, on our consideration of Utilities internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Utilities internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC

Des Moines, Iowa
August 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Winterset Municipal Utilities (Utilities) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended December 31, 2015. We encourage readers to consider this information in conjunction with the Utilities financial statement, which follows.

2015 FINANCIAL HIGHLIGHTS

Receipts of the Utilities totaled \$7,736,754, which represents a decrease of 35% from fiscal year 2014 to fiscal year 2015.

Disbursements totaled \$9,897,348, which represents a decrease of 33% from fiscal year 2014 to fiscal year 2015. A significant amount on construction costs were incurred in fiscal year 2014 for dredging and spillway construction at the lake.

The Utilities total cash basis net assets decreased 30%, or \$2,160,594 from December 31, 2014 to December 31, 2015.

USING THIS ANNUAL REPORT

The Utilities has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Utilities' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Utilities' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Utilities' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statement and provides an analytical overview of the Utilities' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balances presents information on the Utilities' receipts and disbursements and whether the Utilities' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statement with a comparison of the Utilities' budget for the year.

Supplementary Information provides detailed information about the Utilities' debt at December 31, 2015.

FINANCIAL ANALYSIS OF THE UTILITIES

Statement of Cash Receipts, Disbursements and Changes in Cash Balances

The purpose of the statement is to present the receipts received by the Utilities and the disbursements paid by the Utilities, both operating and non-operating. The statement also presents a fiscal snapshot of the Utilities' cash balances at year end. Over time, readers of the financial statement are able to determine the Utilities' financial position by analyzing the increase and decrease in cash balances.

Water receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower and facilities, taps and miscellaneous fees. Electric receipts include metered electric sales, fees for upkeep and/or upgrade of individual electric lines, turn on/off fees, deposits and miscellaneous fees. A summary of cash receipts, disbursements and changes in cash balances for the years ended December 31, 2015 and December 31, 2014 is presented below:

Changes in Cash Balances		
	Year ended December 31,	
	2015	2014
Receipts:		
Use of money and property	\$ 20,754	31,596
Charges for service	7,375,752	6,988,565
Sewer and garbage collected for City	143,084	132,342
Bond proceeds	-	4,516,849
Miscellaneous	197,164	294,043
Total receipts	7,736,754	11,963,395
Disbursements:		
Business type activities	5,947,464	5,741,985
Sewer and garbage fees remitted to City	143,084	132,342
Debt service:		
Principal redeemed	786,000	626,000
Interest paid	442,261	284,864
Service fees	1,250	1,500
Paid to City	-	10,085
Capital outlay	2,577,289	6,485,248
Payments of refunding bonds	-	1,492,790
Total disbursements	9,897,348	14,774,814
Net change in cash balance	(2,160,594)	(2,811,419)
Cash balance beginning of year	7,122,894	9,934,313
Cash balance end of year	\$ 4,962,300	7,122,894
Cash Basis Fund Balance		
Restricted for:		
Sinking account	\$ 308,333	29,893
Reserve account	1,082,923	1,061,423
Improvement account	345,007	3,645,779
Total restricted cash basis fund balance	1,736,263	4,737,095
Unrestricted	3,226,037	2,385,799
Total cash basis fund balance	\$ 4,962,300	7,122,894

The Utilities' unrestricted net assets are available for use in the routine operations of the plant, production, distribution and administrative areas of the Utilities and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the Winterset Municipal Utilities to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution. The Utilities' restricted net assets are restricted funds for the repayment of revenue bonds, for reserve, and reserve for improvements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$2,511,015 to \$2,444,395, due primarily to the cost of capital improvements in fiscal year 2015.
- The Enterprise, Electric Fund cash balance increased \$350,421 to \$2,517,905, due primarily to no major capital improvement costs incurred during the fiscal year.

BUDGETARY HIGHLIGHTS

The Utilities prepares a budget on the cash basis of accounting and is required to submit it to the City of Winterset. There was not a budget amendment in fiscal year 2015.

The Utilities' total receipts were \$80,430 less than budgeted. The Utilities' disbursements were \$2,781,861 less than budgeted for the year as a result of less costs incurred than anticipated in fiscal year 2015.

DEBT ADMINISTRATION

At December 31, 2015, the Utilities had \$12,512,000 in revenue bonds and lease-purchase agreements outstanding, compared to \$13,298,000 at December 31, 2014. Debt decreased due to the scheduled debt payments which were made during the fiscal year.

ECONOMIC FACTORS

Current economic conditions beyond the Winterset Municipal Utilities Trustees control play a significant role in the daily operations of the water and electric plant and distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and electricity.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.
- Natural disasters which could affect the water and electric operations.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional information, contact Stephen Scott Wesselmann, General Manager, 124 W. Court Avenue, Winterset, Iowa 50273.

Financial Statement

WINTERSET MUNICIPAL UTILITIES

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES

As of and for the year ended December 31, 2015

	Water	Electric	Total
Operating receipts:			
Charges for service	\$ 2,112,210	5,263,542	7,375,752
Miscellaneous	17,620	179,544	197,164
Total operating receipts	2,129,830	5,443,086	7,572,916
Operating disbursements:			
Business type activities	1,282,456	4,665,008	5,947,464
Total operating disbursements	1,282,456	4,665,008	5,947,464
Excess of operating receipts over operating disbursements	847,374	778,078	1,625,452
Non-operating receipts (disbursements):			
Interest on investments	4,537	3,154	7,691
Rental income	13,063	-	13,063
Sewer and garbage fees collected for City	143,084	-	143,084
Sewer and garbage fees remitted to City	(143,084)	-	(143,084)
Debt service	(798,700)	(430,811)	(1,229,511)
Capital outlay	(2,577,289)	-	(2,577,289)
Net non-operating receipts (disbursements)	(3,358,389)	(427,657)	(3,786,046)
Change in cash balances	(2,511,015)	350,421	(2,160,594)
Cash balances beginning of year	4,955,410	2,167,484	7,122,894
Cash balances end of year	\$ 2,444,395	2,517,905	4,962,300
Cash Basis Fund Balance			
Restricted for:			
Sinking account	\$ 266,509	41,824	308,333
Reserve account	801,423	281,500	1,082,923
Improvement account	300,000	45,007	345,007
Total restricted cash basis fund balance	1,367,932	368,331	1,736,263
Unrestricted	1,076,463	2,149,574	3,226,037
Total cash basis fund balances	\$ 2,444,395	2,517,905	4,962,300

See notes to financial statement.

WINTERSET MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENT

December 31, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Winterset Municipal Utilities (Utilities) is a component unit of the City of Winterset, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utilities is governed by a three-member Board of Trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Utilities are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

The Utilities reports the following major proprietary funds:

- The Enterprise, Water Fund accounts for the operation and maintenance of the Utilities water system.
- The Enterprise, Electric Fund accounts for the operation and maintenance of the Utilities electric system.

C. Basis of Accounting

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Utilities is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Restricted Fund Balance

Funds set aside for the sinking account, reserve account and the improvement account are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2. Cash and Cash Equivalents

The Utilities' deposits in bank at December 31, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Note 2. Cash and Cash Equivalents (continued)

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Note 3. Revenue Bonds Payable

Annual debt service requirements to maturity for water revenue and electric revenue bonds are as follows:

Year Ending December 31,	Water Revenue Bonds		Electric Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 450,000	347,777	180,000	60,637	630,000	408,414
2017	460,000	338,777	185,000	55,237	645,000	394,014
2018	465,000	329,577	190,000	49,132	655,000	378,709
2019	475,000	320,277	195,000	42,482	670,000	362,759
2020	485,000	310,635	205,000	35,365	690,000	346,000
2021-2025	2,625,000	1,362,160	670,000	55,685	3,295,000	1,417,845
2026-2030	3,085,000	895,614	-	-	3,085,000	895,614
2031-2034	2,470,000	236,107	-	-	2,470,000	236,107
	<u>\$10,515,000</u>	<u>4,140,924</u>	<u>1,625,000</u>	<u>298,538</u>	<u>12,140,000</u>	<u>4,439,462</u>

Water Revenue Bonds

The Utilities has pledged future water customer receipts, net of specified operating disbursements, to repay \$6,720,000 in water revenue bonds issued in 2013, and \$4,500,000 in water revenue bonds issued in 2015. Proceeds from the bonds provided financing for the construction of water main replacements, and to refund an older debt issue. The bonds are payable solely from water customer net receipts and are payable through 2034. Annual principal and interest payments on the bonds are expected to require less than 95 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$14,655,924. For the current year, principal and interest paid and total customer net receipts were \$797,950 and \$847,374, respectively.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the water system and the bond holders hold a lien on the future earnings of the water system.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 125% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this account are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) A total of \$801,423 shall be maintained in a reserve account.
- (e) A total of \$300,000 shall be maintained in an improvement account.
- (f) All users of the system, including the City, shall pay for usage.

Note 3. Revenue Bonds Payable (continued)

- (g) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

The Utilities water reserve account and the sinking account were both deficient at times during the year ended December 31, 2015. However, the balances in these accounts were sufficient as of December 31, 2015.

During fiscal year 2015, sufficient user rates were not established at a level to produce net revenues equal to at least 125% of the principal and interest on the revenue bonds as they become due.

Electric Revenue Bonds

The Utilities has pledged future electric customer receipts, net of specified operating disbursements, to repay \$2,815,000 in electric revenue bonds issued in 2010. Proceeds from the bonds provided financing for the improvements and extension to the electric system. The bonds are payable solely from electric customer net receipts and are payable through 2023. Annual principal and interest payments on the bonds are expected to require less than 31 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,923,538. For the current year, principal and interest paid and total customer net receipts were \$240,450 and \$778,078, respectively.

The resolutions providing for the issuance of the electric revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the electric system and the bond holders hold a lien on the future earnings of the electric system.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) A total of \$281,500 shall be maintained in a reserve account.
- (e) A total of \$200,000 shall be maintained in an improvement account. However, if funds are used from the improvement account for specified purposes, the sum of \$3,500 shall be transferred to this account on the first day of each month of each year until such time as the required improvement fund balance has been restored.
- (f) All users of the system, including the City, shall pay for usage.
- (g) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the electric system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

The improvement account balance was \$45,007 at December 31, 2015.

Note 4 Lease-Purchase Agreement

On March 1, 2002, the Utilities entered into a lease-purchase agreement to lease electric generation equipment. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreement in effect at December 31, 2015:

Year Ending December 31,	Amount
2016	\$ 190,929
2017	187,721
Total minimum lease payments	378,650
Less amount representing interest	(6,650)
Present value of net minimum lease payments	<u>\$ 372,000</u>

Payments under this lease-purchase agreement totaled \$189,861 during the year ended December 31, 2015.

Note 5. Pension and Retirement Benefits

The City of Winterset contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. The Utilities reimburses the City of Winterset for the Utilities' share of the IPERS cost. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the City of Winterset is required to contribute 8.93% of annual covered salary. Contribution requirements are established by state statute. The Utilities' contributions to the City of Winterset for the Utilities' share of the IPERS costs for the years ended December 31, 2015, 2014 and 2013 were \$71,706, \$65,675 and \$64,026 respectively, equal to the required contributions for each year.

Note 6. Other Postemployment Benefits (OPEB)

Plan Description – The City of Winterset operates a single-employer health benefit plan (plan) which provides medical/prescription drug benefits for employees, retirees and their spouses. The Utilities participates in the plan, and reimburses the City of Winterset for the Utilities share of the expenses. There are 36 active and no retired members in the plan. Included in this plan are 11 City employees who are paid from Utilities' funds. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the City and plan members are \$545.41 for single coverage, \$1,117.01 for employee/spouse coverage, \$1,032.47 for employee/dependent coverage, and \$1,673.87 for family coverage. For the year ended December 31, 2015, the Utilities contributed \$182,945, and plan members eligible for benefits contributed \$18,294 to the plan.

Note 7. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The Utilities' approximate liability for earned vacation and sick leave termination payments payable to City employees who are paid from the Utilities' funds at December 31, 2015 is \$90,111. The liability has been computed based on rates of pay in effect at December 31, 2015.

Note 8. Lease Agreements.

The Utilities has three lease agreements in effect as of December 31, 2015.

- (a) The Utilities is leasing antenna space on the water tower to Iowa Wireless Services, LLC (tenant). The initial term of the lease began in September, 2005. The Utilities received \$10,263 from this lease in fiscal year 2015, and is scheduled to receive \$926 per month from this lease until August, 2020. Unless the tenant decides to terminate the lease, the Utilities has to continue to lease the antenna space to the tenant until August, 2020.
- (b) The Utilities is also leasing out a house on a month-to-month basis. The Utilities received \$2,800 from this lease in fiscal year 2015.
- (c) The Utilities entered into a lease in 2013 to lease ground to store the dredge material from the lake. Payment terms consist of two payments of \$15,000 per year, for a total of \$30,000 per year. The lease expires on December 31, 2022, at which time the lessor will be the sole owner of the dredge material. The lessor has the option to remove portions of the material from the property prior to December 31, 2022, at which time the lease payment to the lessor will be reduced, based on a pre-determined formula amount.

The following is a schedule of future payments required under this operating lease:

Year Ended December 31,	Amount
2016	\$ 30,000
2017	30,000
2018	30,000
2019	30,000
2020	30,000
2021	30,000
2022	30,000
Total	<u>\$ 210,000</u>

During the fiscal year, payments made under this lease agreement were \$30,000.

Note 9. Risk Management

The Utilities is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10. Contract

The Utilities is one of 15 municipal utility members of the South Iowa Municipal Electric Cooperative Association (SIMECA). SIMECA is a member of the Central Iowa Power Cooperative (CIPCO).

SIMECA is organized to purchase, generate, transmit, or distribute electric energy and to develop and establish safety programs for the benefit of its municipal members. The Utilities signed purchasing agreements with SIMECA in 1986, 1994, 2006 and a new long-term agreement in 2013. SIMECA has contracted with CIPCO for the electrical power and transmission needs of its members. SIMECA and CIPCO have agreed to a new contract through May 31, 2053. Profits from SIMECA are returned to its members as patronage refund dividends. There are no minimum payments required by this contract.

Note 11. Subsequent Events

The Utilities has evaluated subsequent events through August 1, 2016, which is the date that the financial statement was available to be issued.

Other Information

WINTERSET MUNICIPAL UTILITIES

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL (CASH BASIS)
OTHER INFORMATION

Year ended December 31, 2015

	Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts Original	Original to Net Variance
Receipts:					
Use of money and property	\$ 20,754	-	20,754	11,900	8,854
Charges for service	7,518,836	143,084	7,375,752	7,403,200	(27,448)
Miscellaneous	197,164	-	197,164	259,000	(61,836)
Total receipts	7,736,754	143,084	7,593,670	7,674,100	(80,430)
Disbursements:					
Business type activities	9,897,348	143,084	9,754,264	12,536,125	2,781,861
Change in cash balance	(2,160,594)	-	(2,160,594)	(4,862,025)	2,701,431
Cash balance beginning of year	7,122,894	-	7,122,894	11,255,151	(4,132,257)
Cash balance end of year	\$ 4,962,300	-	4,962,300	6,393,126	(1,430,826)

See accompanying independent auditor's report.

WINTERSET MUNICIPAL UTILITIES

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

December 31, 2015

The Winterset Municipal Utilities (Utilities) prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Utilities disbursements are budgeted in the business type activities function. During the year, there were no budget amendments.

During the year ended December 31, 2015, disbursements did not exceed the amount budgeted.

Supplementary Information

WINTERSET MUNICIPAL UTILITIES

Schedule 1

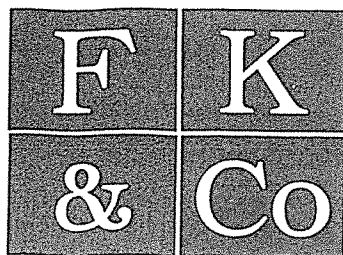
SCHEDULE OF INDEBTEDNESS

Year ended December 31, 2015

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Revenue Bonds -			
Water Improvement and Refunding	10/01/13	2.00-4.50%	\$ 6,720,000
Water	08/01/14	2.00-4.00%	4,500,000
Electric	01/15/10	1.00-4.15%	2,815,000
Lease Purchase Agreement -			
Electric Generation Equipment	03/01/12	1.35-1.85%	2,162,266

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
10/01/13	\$ 6,445,000	-	265,000	6,180,000	217,502	-
08/01/14	4,500,000	-	165,000	4,335,000	150,448	-
01/15/10	1,800,000	-	175,000	1,625,000	65,450	-
	<u>\$12,745,000</u>	<u>-</u>	<u>605,000</u>	<u>12,140,000</u>	<u>433,400</u>	<u>-</u>
03/01/12	\$ 553,000	-	181,000	372,000	8,861	-

See accompanying independent auditor's report.



FALLER, KINCHELOE & Co, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
Winterset Municipal Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the business-type activities and each major fund of the Winterset Municipal Utilities, Winterset, Iowa (Utilities), as of and for the year ended December 31, 2015, and the related Notes to Financial Statement, which collectively comprise the Utilities financial statement, and have issued our report thereon dated August 1, 2016. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B) and (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (D) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Utilities Responses to the Findings

The Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC

Des Moines, Iowa
August 1, 2016

WINTERSET MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended December 31, 2015

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, bank accounts are not reconciled by an individual who does not handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Winterset Municipal Utilities (Utilities) should review its control procedures to obtain the maximum internal control possible under the circumstances. The Utilities could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response – We will consider this.

Conclusion – Response acknowledged.

- (B) Financial Reporting – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The Utilities does not have the internal resources to prepare the full-disclosure financial statements required by an other comprehensive basis of accounting for external reporting purposes. While this circumstance is not uncommon for most small governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – With a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend the Utilities continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles. However, it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

- (C) Material Adjustments - We proposed adjusting journal entries that were material to the Utilities financial statement. Adjusting journal entries were made to properly record receipts and disbursements. Adjustments were subsequently made to properly reflect these transactions in the audited financial statements.

Recommendation – We recommend the Utilities implement procedures to ensure all balances and transactions are properly recorded on the Utilities accounting records.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

WINTERSET MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended December 31, 2015

- (D) Utility Reconciliation and Deposits – The computer system generates a report which documents a reconciliation of the utility billings, collections, adjustment and delinquencies. However, this report is not reviewed by either utility personnel for propriety or by an independent person.

Although the Utility maintains a list of utility deposits received, the Utility does not maintain a separate Utility Deposit account.

Recommendation – The trustees or other independent person should review the utility reconciliation and monitor the delinquencies on a monthly basis.

In addition, to properly identify amounts due to customers for deposits, the Utility should separate this activity from the Enterprise, Water Fund and establish a separate customer deposit account. The balance in this account should be periodically reconciled with the Utilities detailed listing of meter deposits on hand.

Response – We will attempt to implement these recommendations.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

WINTERSET MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended December 31, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended December 31, 2015 did not exceed the amounts budgeted for the Utilities.

The Utilities budget hearing for fiscal year 2015 was held on December 8, 2014. Chapter 384.2 of the Code of Iowa requires that the budget of the Utilities be approved by resolution of the City Council not later than twenty days prior to the beginning of the calendar year for which the budget applies. To meet compliance with this requirement, the fiscal year 2015 Utilities budget should have been approved by the Utilities no later than December 12, 2014. There was no evidence that the City Council approved by resolution the budget of the Utilities.

The Utilities did not publish a notice of public hearing on the budget between ten and twenty days before the hearing in the newspaper as required by Chapter 384.16 of the Code of Iowa. The Utilities published the notice of public hearing on the budget five days prior to the public hearing.

Recommendation – The Utilities should implement procedures to ensure Chapter 384.2 of the Code of Iowa is followed in relation to the approval of the budget and Chapter 384.16 of the Code of Iowa is followed in relation to the publication on the notice of public hearing on the budget.

Response – We will implement this recommendation in the future.

Conclusion – Response acknowledged.

- (2) Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense - No disbursements of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- (4) Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) Board of Trustee Minutes – No transactions were found that we believe should have been approved in the trustee minutes but were not.
- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.

WINTERSET MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended December 31, 2015

(8) Revenue Bonds – Instances of non-compliance with the water revenue bond requirements for the fiscal year ended December 31, 2015 were noted:

- At times during the year ended December 31, 2015, the Utilities water revenue reserve account was not maintained at an amount equal to the balance required by the provisions of the water revenue bond resolutions.
- The water revenue bond resolutions requires a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the sinking account. At times during the year ended December 31, 2015, the balance in the sinking account was deficient.
- The Utilities Water Revenue Bonds resolutions requires the Utilities “leave a balance of net revenues equal to at least 125% of the principal of and interest on all of the bonds and any other parity obligations due in such fiscal year, as they become due.”

The Utilities fiscal year 2015 net water operating income of \$847,374 is less than 125% of the \$797,950 of water revenue bonds principal and interest due during fiscal year 2015.

Recommendation – The Utilities should consult legal counsel to determine the disposition of these matters, and should implement procedures to ensure water revenue bond requirements are met.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

(9) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each government entity to report and remit obligations, including checks outstanding for more than two years to the Office of Treasurer of State annually. The Utility did not remit these obligations as required.

Recommendation – The outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State as required.

Response – We will look into this.

Conclusion – Response acknowledged.

(10) Bad Debt – Currently, the Utilities bills a customer three times for utility usage. If the Customer does not pay, the account is written off as uncollectible.

Recommendation – The Utilities should consider turning over delinquent accounts to a collection agency, the County Treasurer or the State of Iowa for collection.

Response – We will review this to determine the best course of action.

Conclusion – Response acknowledged.

WINTERSET MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS

Year ended December 31, 2015

- (11) Compliance Issues – The Utilities did not issue Internal Revenue Service (IRS) 1099-Misc. forms as required. In addition, two instances were noted where State of Iowa sales taxes were paid by the Utilities.

The IRS requires that 1099-Misc. forms be filed for all individuals who provide more than \$600 in services to the Utilities in a calendar year. In addition, as a government entity, the Utilities is exempt from paying State of Iowa sales taxes.

Recommendation – The Utilities should ensure IRS 1099-Misc. forms are filed as required. In addition, the Utilities should ensure that State of Iowa sales taxes are not paid.

Response – These issues were oversight on our part. We will implement this recommendation in the future.

Conclusion – Response acknowledged.

- (12) Water Loss – The Utilities does not compare the gallons of water pumped by the Utilities to the gallons of water sold to its customers. This data may be useful to help the Utilities obtain grants, to help identify potential unauthorized use of water services and to identify if there is a problem with water leaks in the City.

Recommendation – The Utilities should implement procedures to compare gallons of water pumped to the gallons of water billed.

Response – We are currently working on this issue.

Conclusion – Response acknowledged.